

Message Text

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ACTION EB-07

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INFO AMEMBASSY JIDDA

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E.O. 11652: N/A

TAGS: ENRG, AG

SUBJECT: NEW ALGERIAN OIL PRICE POLICY

1. BEGIN UNCLASSIFIED. SUMMARY: SONATRACH RTICLE OF
NOVEMBER 20 SPECIFIES TERMS OF AUTOMATIC PRICE INDEXING
SCHEME UNDER WHICH ALGERIANS HAVE SOLD ALL OIL AVAILABLE
IN 1976 AND PLACED MAJORITY AVAILABLE THROUGH 1980.

INTERESTING FEATURES OF SCHEME INCLUDE PROVISION FOR
RENEGOTIATION OR SUSPENSION OF CONTRACTS ON NINETY DAYS
NOTICE, AND PROVISION FORBIDDING RESALE OF OIL. SONATRACH
ALSO STATES THAT ALGERIAN OIL WILL BE SOLD AT WELL ABOVE
OFFICIAL PRICE UNDER TERMS OF NEW PRICE POLICY WHICH
TAKES EFFECT JANUARY 1, 1976. PRIMARY ADVANTAGE OF
NEW SYSTEM IS ABILITY IT GIVES ALGERIANS TO ADJUST
CONTINUOUSLY PRICE OF ITS CRUDE ACCORDING TO MARKET

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CONDITIONS. ALGERIANS APPEAR BELIEVE SYSTEM REPRESENTS

MODEL FOR OTHER OPEC STATES. END SUMMARY.

2. ALGERIAN PRESS SERVICE NOVEMBER 20 RELEASED LONG ARTICLE WRITTEN BY SONATRACH ENTITLED QUOTE THE NEW SALES POLICY OF SONATRACH UNQUOTE. ARTICLE SAYS THAT FOLLOWING PLACEMENT OF ALL CRUDE AND CONDENSATE AVAILABLE IN 1976, SONATRACH WOULD LIKE TO MAKE CLEAR CONDITIONS UNDER WHICH THIS OIL WAS SOLD AND REASONS FOR THESE CONDITIONS. EXPLAINING TRANSFER FROM OIL SYSTEM OF QUARTERLY PRICE RENEGOTIATIONS, SONATRACH SAYS CHIEFS OF STATE OF OPEC COUNTRIES HAVE PROCLAIMED THEIR DESIRE TO STABILIZE THE REAL VALUE OF PRICE OF OIL. GIVEN THIS POLICY, ALGERIA CAN NO LONGER JUSTIFY A QUARTERLY PRICE REVISION SYSTEM, AND HAS PROPOSED A LONGER TERM MECHANISM.

3. SONATRACH ARTICLE THEN LISTS SIX PRINCIPLES ON WHICH NEW PRICE SCHEME IS BASED. THESE IN ESSENCE ARE AS FOLLOWS: (A) PRICE OF IL (AND ONDENSATE) IS AT ALL TIMES EQUAL TO PRICE OF ARABIAN LIGHT PLUS A FREIGHT AND QUALITY DIFFERENTIAL. (B) FREIGHT AND QUALITY DIFFERENTIALS ARE DETERMI ACCORDING TO THE MARKET SITUATION. THESE DIFFERENTIALS ARE THUS INFLUENCED BY MOVEMENTS IN FREIGHT MARKET AND BY MOVEMENTS OF PRICE OF PETROLEUM PRODUCTS IN THE MAJOR CONSUMING MARKETS. --- DIFFERENTIALS AGREED AT BEGINNING OF CONTRACT CAN BE ADJUSTED QUARTERLY BY NEGOTIATION. IN SUCH CASE, THE AUTOMATIC FORMULA WILL SERVE SIMPLY AS A GUIDE IN DISCUSSION. --- IN MAJORITY OF CONTRACTS, THERE WILL ALSO BE FLOOR AND CEILING LEVEL FOR DIFFERENTIALS. (C) NEW CONTRACTS CONTAIN SAFEGUARD CLAUSE SPECIFYING THAT CONTRACT MAY BE ALTERED IF FUNDAMENTAL MODIFICATIONS OCCUR IN ECONOMIC CONDITIONS ON WHICH CONTRACT BASED. (D) IN CASE OF DISAGREEMENT BETWEEN PARTIES, CONTRACT WILL CONTINUE IN FORCE DURING THREE MONTH PERIOD. IF DISAGREEMENT PERSISTS, CONTRACT MAY BE SUSPENDED AT THAT TIME. CONTRACT MAY BE REACTIVATED DURING PERIOD UP TO ONE YEAR. (E) UNIT OF ACCOUNT AND MEANS OF SETTLEMENT SHALL BE THOSE ACCEPTED BY OPEC. CREDIT CONDITIONS REMAIN 30 DAYS AFTER COMPLETION OF LIFTING. (F) QUOTE IT SHOUD BE NOTED ALSO THAT ALGERIAN OIL LIMITED OFFICIAL USE

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HAS BEEN PLACED WITH REFINERS THEMSELVES WHO ARE FORBIDDEN CONTRACTUALLY TO RESELL IT UNQUOTE.

4. ON THE BASIS OF THESE PRINCIPLES, SONATRACH SAYS IT HAS SOLD OIL AND CONDENSATE AVAILABLE IN 1976 AND PLACED MAJORITY OF OIL AVAILABLE IN 1977-80. ONE CAN NO LONGER TALK OF SINGLE PRICE FOR ALGERIAN OIL, SONATRACH CONTINUES. PRICES FOR ALGERIAN OIL MAY BE

SLIGHTLY DIFFERENT IN DIFFERENT MARKETS -- BY A FEW CENTS AT MOST. DIFFERENCES WILL ALSO ARISE FROM VARIOUS TYPES OF ALGERIAN CRUDE AND DIFFERENT LOADING PORTS. AS RESULT OF THIS AUTOMATIC SYSTEM, AVERAGE PRICE APPLICABLE TO OIL SALES BEGINNING IN JANUARY WILL BE CLEARLY ABOVE CURRENT PRICE OF DOLS 12.75.

5. HENCEFORWARD, ARTICLE CONCLUDES, SONATRACH CLIENTS CAN HAVE CONFIDENCE THAT THEY WILL HAVE REGULAR AND SURE SUPPLY OF OIL THANKS TO ESTABLISHMENT OF FLEXIBLE FORMULA THAT WILL PERMIT PARTIES TO ACCEPT LONG TERM CONTRACTS. END UNCLASSIFIED.

6. BEGIN LIMITED OFFICIAL USE. COMMENT: NEW ALGERIAN PRICING SYSTEM SETS DOWN IN CONTRACT FORM WHAT ALGERIANS HAVE IN PAST BEEN TRYING TO DO ON MORE INFORMAL BASIS, I.E., CAPTURE MAXIMUM VALUE OF RELATIVE ADVANTAGES OF THEIR CRUDE. SYSTEM WILL ALLOW ALGERIA TO TAKE IMMEDIATE ADVANTAGE OF ANY CHANGES IN VALUE OF ITS OIL, INSTEAD OF WAITING FOR QUARTERLY PRICE RENEGOTIATION SESSIONS AS IN PAST. MORE IMPORTANTLY, SYSTEM GIVE ALGERIA CONSIDERABLE FLEXIBILITY IN ADJUSTING SALE PRICE UPWARDS OR DOWNWARDS TO CONFORM TO MARKET CONDITIONS. SYSTEM IN ITS FINAL FORM, HOWEVER, REPRESENTS RATHER LARGE DEPARTURE FROM ORIGINAL CONCEPT OF ONE TO FIVE YEAR CONTRACT WITH PRICE SOLELY DETERMINED BY ALGERIAN COMPUTED PRICE INDEX FORMULA. VARIOUS BUYER PROTECTION CLAUSES WHICH HAVE BEEN ADDED WOULD SEEM TO LEAVE AMPLE ROOM FOR CONTRACT CANCELLATIONS OR MODIFICATIONS IF NEED ARISES.

7. ALGERIANS APPEAR PROUD OF NEW SYSTEM AND CLEARLY EXPECT THAT ITS PERFORMANCE WILL CONVINCE OTHER OPEC STATES TO ADOPT LIMITED OFFICIAL USE

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SAME SCHEME. INFAC, ALGERIAN PRESS HAS NOTED THAT CERTAIN NUMBER OF COUNTRIES AT LAST MEETING OF OPEC ECONOMIC COMMISSION BELIEVED THAT ALGERIAN PRICE SCHEME COULD SERVE AS BASIS FOR RESOLVING DIFFERENTIAL QUESTION PENDING DEVELOPMENT BY OPEC OF MORE SOPHISTICATED SYSTEM. END LIMITED OFFICIAL USE. LYNE

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